

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF BLUEGRASS GAS SALES, INC.)	
FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE)	
AND NECESSITY TO CONSTRUCT FACILITIES,)	CASE NO.
APPROVAL OF FINANCING, APPROVAL OF INITIAL)	94-433
RATES AND OPERATION OF A NATURAL GAS)	
DISTRIBUTION SYSTEM)	

INTERIM ORDER

On November 9, 1994, Bluegrass Gas Sales, Inc. ("Bluegrass") applied for authority to borrow \$147,500 from Transfinancial Bank of Glasgow, Kentucky ("Transfinancial"), for a Certificate of Convenience and Necessity to construct certain natural gas distribution facilities located in Metcalfe, Barren and Hart counties in Kentucky, for approval of initial rates, and for authority to operate a natural gas distribution system.

The \$147,500 loan would be secured by a lien on the assets of the system and would bear interest at 1.0 percent above the New York prime rate as published in the Wall Street Journal. The term loan is to be serviced on a monthly basis with payments of interest in arrears during the construction phase. In January 1996, payments will begin based on a ten year, level principal payment plus interest.

The proceeds of the loan would be used to finance an estimated \$170,000 in proposed construction with the balance of the construction funds coming from common equity investments. Documents provided by Mammoth Petroleum ("Mammoth"), the proposed contractor, indicate construction will include approximately 30,000

feet of two- and three-inch polyethylene ("PE") pipe and related facilities. According to the information filed, Mammoth's personnel are certified for PE pipe fusion. According to Bluegrass, all rights-of-way for installation of the pipe on private property have been secured, and only road bores will require Bluegrass to obtain state or county permits. State and county permits have not been obtained since the exact locations of the required road bores have not been determined.

Mammoth currently operates Natural Gas of Kentucky's ("Natural Gas") transmission pipeline, through which Bluegrass's gas supply will be delivered. Mammoth, Natural Gas, and Bluegrass are affiliated entities as defined in Part 201 of the Uniform System of Accounts Prescribed for Natural Gas Companies ("USoA"). Because any transactions among these entities will be less than "arm's length," and therefore subject to increased scrutiny by the Commission, Bluegrass should ensure that its records are separately maintained and that any affiliated transactions are documented to support their reasonableness.

Bluegrass intends to acquire an existing pipeline presently owned and operated by Natural Gas. The existing pipeline is approximately 15 years old with an original cost of \$22,000. Bluegrass has filed the journal entries that will be made to reflect the purchase of these assets in accordance with the USoA. Bluegrass should note that the resulting acquisition adjustment balance will be closely scrutinized in any rate proceeding due to the fact that the purchase of these assets is from an affiliate

from whom Bluegrass intends to acquire gas transportation service. The Commission is unfamiliar with the condition of these existing pipeline facilities, and no historical operation or pressure information has been provided by Bluegrass. Bluegrass should test any existing pipeline facilities pursuant to 807 KAR 5:022 prior to operation as a distribution system.

Fifty-two customers are presently served from the facilities Bluegrass proposes to purchase. The rates charged by Natural Gas for service to these customers have never been approved by the Commission. Based upon a prima facie showing in this record that Natural Gas has been operating a gas distribution utility in violation of Kentucky statutes, the Commission is opening a separate proceeding to investigate the alleged violations. Approval of the transactions proposed by Bluegrass in this proceeding in no way absolves Natural Gas of any liability for violations of KRS 278.020 and KRS 278.160.

Bluegrass indicated at an informal conference that it is proposing to adopt the rates that Natural Gas is currently charging for the existing Natural Gas customers while new customers would be charged a rate of \$7.00 per Mcf. However, Bluegrass has not provided notice of its proposed rates to the 52 customers whose service it proposes to acquire from Natural Gas.

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The proposed loan from Transfinancial is for lawful objects within the corporate purposes of Bluegrass, is necessary

and appropriate for and consistent with the proper performance by Bluegrass of its service to the public and will not impair its ability to perform that service, and should therefore be approved.

2. The proceeds from the proposed loans should be used only for the lawful purposes set out in Bluegrass's application.

3. Bluegrass should maintain its records in accordance with the USoA.

4. Bluegrass should be granted a Certificate of Convenience and Necessity to construct the proposed pipeline.

5. Bluegrass should provide notice of its proposed rates to the 52 customers it proposes to acquire from Natural Gas. The notice should comply with 807 KAR 5:022, Section 8(2), and a copy should be provided to the Commission. Once the notice requirement has been met, the Commission will proceed with its review of Bluegrass's request for initial rates.

IT IS THEREFORE ORDERED that:

1. Bluegrass be and it hereby is authorized to borrow \$147,500 from Transfinancial for a 10 year period and bearing interest at 1.0 percent above the New York prime rate for the purposes set out in its application.

2. Bluegrass shall maintain its records in accordance with the USoA prescribed for natural gas companies.

3. Bluegrass shall file the journal entries made to reflect the purchase of the assets from Natural Gas within 10 days of the date of the closing.

4. Bluegrass is hereby granted a Certificate of Convenience and Necessity to construct the proposed facilities referenced herein.

5. Bluegrass shall file with the Commission a copy of the final construction contract and the construction schedule no later than 15 days prior to the commencement of construction.

6. Bluegrass shall file with the Commission the actual cost of the construction and as-built drawings of the system no later than 3 months from the date of completion of the work.

7. Bluegrass shall provide notice in compliance with 807 KAR 5:011, Section 8(2), to the 52 customers whose service it proposes to acquire from Natural Gas. A copy of the notice shall be filed with the Commission at the time the first or only notice is given.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 6th day of October, 1995.


PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Executive Director


Commissioner